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COMMISSION
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ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

OMB APPROVAL

OMB Number 3235-0123
Expires: October 31, 2004
Estimated average burden
hours per response...12.00

SEC FILE NUMBER

8- 48999

REPORT FOR THE PERIOD BEGINNING January 1, 2002 AND ENDING December 31, 2002
(MM/DD/YY) (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Northland Securities, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

45 South 7th Street, Suite 2500

(No. and Street)

Minneapolis

(City)

MN

(State)

55402

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT.

Randy Nitzsche

(612) 851-5900

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Schweitzer Karon & Bremer, LLC

(Name - if individual, state last, first, middle name)

222 South 9th Street, Suite 1700

(Address)

Minneapolis

(City)

MN

(State)

55402

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions

PROCESSED

MAR 13 2003

**THOMSON
FINANCIAL**

FOR OFFICIAL USE ONLY

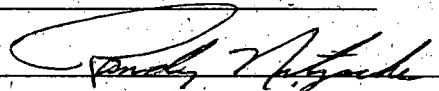
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410-(06-02)

MAR 12 2003

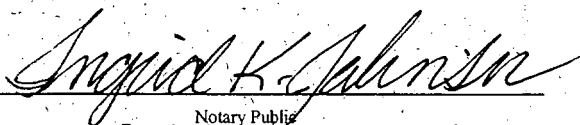
OATH OR AFFIRMATION

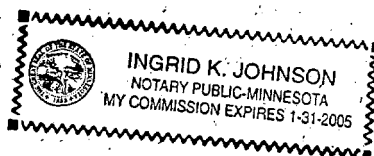
I, Randy Nitzsche, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Northland Securities as of December 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature

CHIEF OPERATING OFFICER

Title


Notary Public

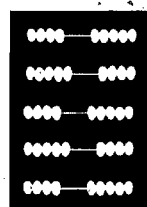


This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c-3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**NORTHLAND SECURITIES, INC.
AND SUBSIDIARY
CONSOLIDATED FINANCIAL REPORT
AND SUPPORTING SCHEDULES
PURSUANT TO RULE 17a-5 OF THE
SECURITIES EXCHANGE ACT
December 31, 2002**

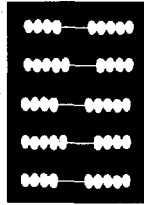


**SCHWEITZER
KARON &
BREMER, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

AN INDEPENDENTLY OWNED AND OPERATED CPA FIRM

222 South Ninth Street, Suite 1700 • Minneapolis, MN 55402
Telephone 612-339-7811 • Fax 612-339-9845



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Northland Securities, Inc. and Subsidiary
Minneapolis, Minnesota

We have audited the accompanying consolidated statement of financial condition of Northland Securities, Inc. and subsidiary as of December 31, 2002. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northland Securities, Inc. and subsidiary as of December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Schweitzer Karon & Bremer, LLC

SCHWEITZER KARON & BREMER, LLC
Certified Public Accountants
Minneapolis, Minnesota
February 19, 2003

NORTHLAND SECURITIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

December 31, **2002**

ASSETS:

Cash and cash equivalents	\$ 1,447,797
Receivable from clearing organization	1,053,304
Securities available for sale	1,733,963
Accounts receivable	102,504
Property and equipment, net of accumulated depreciation of \$12,972	213,373
Other assets	312,029
Total assets	\$ 4,862,970

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Accounts payable	\$ 250,945
Accrued expenses	370,851
Accrued income taxes	5,000
Deposits	122,900
Securities sold, not yet purchased	83,532
Total liabilities	833,228

COMMITMENTS AND CONTINGENCIES (NOTES 5, 7 AND 8)

STOCKHOLDERS' EQUITY:

Class A common stock, par value \$.01 per share; authorized 9,000,000 shares; issued 1,692,000 shares	16,920
Class B common stock, par value \$.01 per share; authorized 1,000,000 shares; issued 200,000 shares;	2,000
Undesignated stock, 10,000,000 shares authorized	
Additional paid-in capital	4,043,795
Accumulated deficit	(32,973)
Total stockholders' equity	4,029,742
Total liabilities and stockholders' equity	\$ 4,862,970

NORTHLAND SECURITIES, INC. AND SUBSIDIARY

NOTES CONSOLIDATED TO FINANCIAL STATEMENTS

Note 1. Nature of Business, Financial Instruments With Off-Balance Sheet Risk, and Significant Accounting Policies

Nature of business:

Northland Securities, Inc. ("Northland") and its subsidiary Northland Networks, Inc. (collectively, "the Company") are principally engaged in providing securities brokerage, investment banking, and related financial services to individuals, institutions, corporations and municipalities. Northland Networks, Inc. provides consulting services to private parties and institutions seeking to obtain commercial lending arrangements or participation in a financing arrangement. The consolidated financial statements include the accounts of the parent and its subsidiary. All material intercompany balances and transactions have been eliminated.

Northland was incorporated in the State of Minnesota in 1995, and operated as Oracle Investments, Inc. until September 2002, at which time, under new ownership and management, the Company changed its name to Northland Securities, Inc. The Company expanded and changed its operations by adding additional brokers, municipal bond underwriting, consulting services, and research services.

The Company primarily acts as an introducing broker and dealer of securities with customers in various parts of the United States however most customers are located in the upper Midwest area. It clears all transactions for its customers on a fully disclosed basis with a clearing broker or dealer, who carries all the customers' accounts and maintains the related records.

Financial instruments with off-balance sheet risk:

Off-balance-sheet credit and market risk:

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities, options and bond transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contracted obligations. The Company clears all transactions for its customers on a fully disclosed basis with a clearing broker or dealer (clearing firm), who carries all the customer accounts and maintains the related records. Nonetheless, the Company is liable to the clearing firm for the transactions of its customers.

The Company records customer transactions on a trade date basis, which is generally three business days before the settlement date. The Company is therefore exposed to risk of loss on these transactions in the event of the customer's or broker's inability to meet the terms of their contracts in which case the Company may have to purchase or sell financial instruments at prevailing market prices. Settlement of these transactions is not expected to have a material effect upon the Company's Statement of Financial Condition.

The Company's customer securities activities are transacted on either a cash or margin basis. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines, requiring the customers to deposit additional collateral, or reduce positions, when necessary.

NORTHLAND SECURITIES, INC. AND SUBSIDIARY
NOTES CONSOLIDATED TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Business, Financial Instruments With Off-Balance Sheet Risk, and Significant Accounting Policies (Continued)

Financial instruments with off-balance sheet risk (continued):

Concentrations of credit risk:

As an introducing broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of corporations, governments, institutional and individual investors. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities and options transactions can be directly impacted by volatile trading markets which may impair the customer's ability to satisfy their obligations to the Company.

Fair value considerations:

Substantially all of the Company's financial instruments are carried at fair value or amounts that approximate fair value. Investment securities are valued using quoted market or dealer prices. The Company's remaining financial instruments are generally short-term in nature and liquidate at their carrying values.

Significant accounting policies:

Cash and cash equivalents:

For purposes of reporting the statements of cash flows, the Company includes all cash accounts, which are not subject to withdrawal restrictions or penalties, as cash and cash equivalents on the accompanying statements of financial condition.

The Company maintains cash in bank accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses on such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Receivables and credit policies:

Accounts receivable for fees, reimbursable expenses, and other services are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Past due accounts receivables with invoice dates over 30 days are not charged interest.

Commissions receivable on trades executed by the clearing firm are accrued on a settlement date basis. The commission receivable does accrue interest and is paid to the Company approximately one week after month end.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. At December 31, 2002, management considers all amounts collectible.

NORTHLAND SECURITIES, INC. AND SUBSIDIARY
NOTES CONSOLIDATED TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Business, Financial Instruments With Off-Balance Sheet Risk, and Significant Accounting Policies (Continued)

Significant accounting policies (continued):

Investment banking:

Underwriting revenues and fees from advisory assignments are recorded when the underlying transaction is completed under the terms of the engagement. Expenses related to securities offerings in which the Company acts as principal or agent are deferred until the related revenue is recognized. Expense reimbursements related to advisory activities are recorded as a reduction of related expenses.

Security transactions:

Commission income and related expenses for security transactions are recognized on the settlement date basis. There would be no material effect on the financial statements if trade execution date instead of settlement date were used.

Firm trading securities held for resale including securities owned, and securities sold and not yet purchased, are valued at market and unrealized gains and losses are reflected in revenues from principal transactions.

Property and equipment:

Property and equipment are recorded at cost. Expenditures for renewals and betterments are capitalized. Repairs and maintenance are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts, any gain or loss is reflected in the results of operations.

Depreciation and amortization:

Depreciation of property and equipment is computed under straight-line methods over estimated useful lives as follows:

	Years
Computer equipment	5
Office furniture and fixtures	7

Depreciation expense was \$19,000 for the year ended December 31, 2002.

Impairment of long-lived assets:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

NORTHLAND SECURITIES, INC. AND SUBSIDIARY
NOTES CONSOLIDATED TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Business, Financial Instruments With Off-Balance Sheet Risk, and Significant Accounting Policies (Continued)

Significant accounting policies (continued):

Income taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred taxes result principally from the difference in recognition of investment income for financial statement and tax reporting purposes.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2. Receivable from Clearing Organization

The receivable from the clearing organization consists of the following:

	2002
Commissions receivable	\$ 504,213
Clearing deposits	100,156
Proceeds from the sale of securities	410,226
Accrued interest receivable	38,709
Total	\$ 1,053,304

Note 3. Securities Available for Sale and Securities Sold, Not Yet Purchased

The following is a summary of the market value of major categories of securities owned and securities sold, not yet purchase as of December 31, 2002:

	Securities Available for Sale	Securities Sold, Not Yet Purchased
Corporate equity securities	\$ 55,500	\$ 16,599
Municipal bonds	1,352,917	20,709
Corporate debt securities	325,546	46,224
Total	\$ 1,733,963	\$ 83,532

NORTHLAND SECURITIES, INC. AND SUBSIDIARY
NOTES CONSOLIDATED TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Property and Equipment

The following is a summary of property and equipment:

	2002
Office equipment	\$ 220,187
Furniture fixtures	4,543
Leasehold improvements	1,615
	226,345
Less accumulation depreciation	12,972
Total property and equipment	\$ 213,373

Note 5. Stockholders' Equity

During the period September 15, 2002 through December 31, 2002, the Company issued 1,692,000 shares of Class A common stock to employees for \$3,545,000. The Company also purchased and retired 26,000 shares of common stock for \$99,785.

In addition to the issuance of Class A shares, the Company issued 200,000 shares of Class B common stock to an outside investor for \$500,000. The investor has the option and right to require the Company to purchase these shares on September 25, 2007 for either the book value of these shares, or \$625,000.

Company stock outstanding is subject to certain restrictions that provide the Company and the other stockholders with the right to purchase stock from any stockholder who desires to sell shares or terminates employment with the Company. The purchase price of these shares is determined utilizing the book value per share of the outstanding stock.

Note 6. Federal and State Income Taxes

The components of the provision for federal and state income taxes are as follows:

	2002
Current:	
Federal	\$ 2,300
State	2,700
Deferred:	
Federal	0
State	0
Provision for federal and state income taxes	\$ 5,000

The Company has federal and state net operating loss carryforwards of \$9,000. The carryforward amounts are attributable to the former operations of Oracle Investment, Inc. and utilization is restricted subject to the annual limitations specified by the Internal Revenue Code.

NORTHLAND SECURITIES, INC. AND SUBSIDIARY
NOTES CONSOLIDATED TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Commitments

The Company conducts its operations in leased facilities. The lease agreement provides for monthly rental payments ranging between \$14,800 and \$16,300, plus a proportionate share of the building's operating expenses, and expires March 2006. Rent expensed under this arrangement was \$40,000 for the three months ended December 31, 2002.

The Company is obligated under operating leases for office equipment. The leases have varying terms expiring through September 2006. Aggregate payments under these leases amount to \$10,600 per month.

Future minimum lease payments which must be made under noncancellable lease agreements are:

Year	Amount
2003	\$ 254,000
2004	265,000
2005	210,000
2006	52,000
Total minimum lease payments	\$ 781,000

Note 8. Contingencies

A Statement of Claim has been filed with the National Association of Securities Dealer's, Inc. ("NASD") against Northland by Miller Johnson Steichen Kinnard, Inc. ("MJSK"). Several former employees of MJSK resigned and formed Northland Securities, Inc. MJSK alleges that Northland violated its obligation under NASD conduct rules, aided and abetted breaches of fiduciary duty by former MJSK employees, interfered with MJSK's contracts with its employees, interfered with MJSK's contractual and prospective economic relationships with customers, converted property of MJSK to its own use, and engaged in unfair competition. The Company has filed an Answer and Counterclaim and Third Party Claim.

This matter is in arbitration currently pending before NASD, and the discovery phase has commenced. The Company believes the claims are without merit and intends to defend against the claims brought by MJSK and to pursue its counterclaims vigorously. The Company is not able to predict the outcome of this claim nor can the Company reasonably estimate a range of the possible loss given the current status of arbitration.

Note 9. Customer Transactions

The Company does not hold customer funds or securities. Accordingly, the Company is exempt from the requirement to maintain a "Special Reserve Account for the Exclusive Benefit of Customers" under provisions of SEC Rule 15c3-3 based on Paragraph K(2)(ii) of that rule.

Note 10. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c 3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15-to-1. The rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2002, the Company had net capital and net capital requirements of \$3,160,559 and \$250,000, respectively. The Company's net capital ratio was 25.5 to 1.